

**CollegeCounts 529 Fund Board Meeting**  
**February 15, 2012**  
**9:00 a.m.**

**MINUTES**

**Board Present:**

Chair Young Boozer  
Mr. Dennis Beavers  
Mr. Chess Bedsole  
Dr. Greg Fitch  
Ms. Leigh Grogan for Chancellor Freida Hill  
Mr. Daniel Hughes, Vice Chair  
Mr. Mychal Smith  
Mr. Ronald Stokes  
Ms. Morgan Cowling for Lt. Governor Kay Ivey

**Absent:**

Dr. William Meehan

**Others Present:**

Ms. Glenda Allred, Deputy Treasurer  
Ms. Daria Story, Assistant Treasurer  
Ms. Brenda Emfinger, College Savings Programs Director  
Mr. Jay Steinacher, Union Bank and Trust  
Mr. William Shafferman, Union Bank and Trust  
Mr. Trevor Jackson, Wilshire Associates (by phone)  
Mr. Mannik Dhillon, Wilshire Associates (by phone)  
Mr. Jeremy Thiessen, PCA Consultants  
Ms. Andrea Fierstein, AKF Consulting

Pursuant to written and public notice, the meeting of the Board of Directors of the CollegeCounts 529 Fund was held in the RSA Union Building, 6<sup>th</sup> Floor Conference Room on February 15, 2012.

**Agenda Item 1.**

The meeting was called to order by Chairman Young Boozer at 9:00 a.m., with a quorum present. Chairman Boozer introduced new board member, Chess Bedsole, noting that he was a law school graduate and currently employed with Porter White & Company, a financial firm in Birmingham. He also noted that the Bedsole family was involved in a college scholarship program.

**Agenda Item 2.**

Chairman Boozer presented the minutes of the November 19, 2011 board meeting. A motion for approval was made by Mr. Beavers, seconded by Mr. Bedsole, with unanimous approval. Bedsole can't second minutes since he wasn't at November meeting.

**Agenda Item 3.A.**

Chairman Boozer called on Mr. Steinacher for the quarterly program review. Mr. Steinacher began by stating that 2011 had been an exceptional year for the program. Total program contributions were \$117.3 million for the year compared to \$82.6 million in 2010 and \$63.6

million in 2009. Alabama contributions were \$65.4 million in 2011 representing an increase of 120% over 2010 (up \$35.7 million). The fourth quarter was exceptionally strong which Mr. Steinacher attributed to the active marketing campaign, the well-received TV commercials, and the attractive Alabama tax deduction. He also credited the success to the activities and efforts of Red Square, Treasury staff and Union Bank field reps throughout the year. 5,997 new accounts were opened by Alabama families in 2011, a record year for the plan. In addition, a targeted marketing campaign in 2011 was implemented to increase contributions by existing account owners. The campaign was effective with the Direct Plan seeing an increase in the number of automatic investment plans ("AIP") from 34% to 39% of accounts along with an increase from \$112 to \$129 in the monthly AIP amount (up 14.8%).

The December 31, 2011 report is attached for reference and summarized as follows:

- For the quarter ended December 31, 2011, total program assets were \$773.1 million with new contributions of \$32 million, including \$21.5 million from Alabama residents. There were a total of 58,770 accounts. Alabama accounts increased by 1,681 to a total of 18,528.
- 69% of new Direct Plan accounts have been established online.
- The marketing and promotion efforts throughout the year continue to be statewide. Alabama counties with the largest number of accounts are Jefferson, Madison, Shelby, Mobile and Baldwin.
- Census Bureau statistics report 1,132,459 Alabama children under the age of 18. CollegeCounts has 18,528 Alabama accounts. The in-state "success rate" is 1.64%. The ongoing goal is to open 5,000 new Alabama owned accounts each year.
- 75.3% of qualified withdrawals during 2011 went to the account owner, 10.4% to the account beneficiary and 14.3% directly to the school
- The Program offers solid investment diversification and choice. Investors and financial advisors have utilized the Age-Based Options with 66.5% of Direct assets and 73.1% of Advisor assets invested in the Age-Based Portfolios. The Program offers an Aggressive, Moderate, and Conservative Age-Based Option.
- Only 3.5% of all accounts made an investment change in 2011. It was noted that historically investors have been rewarded when taking a long-term view versus chasing the market.
- The overall asset allocation of each plan (i.e., Age-Based, Target, and Individual Fund Portfolios) reflects solid diversification:

	<u><b>Direct Plan</b></u>	<u><b>Advisor Plan</b></u>
Cash	5.7%	4.8%
Fixed Income	29.9%	28.1%
Real Estate	1.9%	1.5%
Domestic Equity	47.6%	43.9%
International Equity	15.0%	21.7%

- The average age of account owners is 47 years with 75% of all account owners between the ages of 35 to 65.
- The average account size in the Direct Plan is \$10,271 and \$14,227 in the Advisor Plan.
- Additional information was provided on page 22 and 28 of the report regarding the composition of the underlying funds in the various age-based and target portfolios

Mr. Steinacher then provided information on the increased web traffic along with the grass roots marketing efforts across the State in 2011. Call center statistics were reviewed with the

CollegeCounts call center servicing 38,835 calls in 2011 while maintaining an exceptional average answer time of 7 seconds (ie: a caller received a live CollegeCounts customer care representative after 1 ring of the phone).

Marketing materials from the 4<sup>th</sup> quarter were included in the Board booklet. The Advisor Plan had a number of significant fee reductions in underlying mutual fund expenses. A copy of the January communication to current account owners and financial advisors was reviewed (i.e., letter and Program Disclosure Statement Supplement). The average underlying fund costs had average decreases of 17% for the Age-Based Portfolios, 16% for the Target Portfolios, and 11% for the Individual Fund Portfolios. These positive changes were communicated to Morningstar.

### **Agenda Item 3.B.**

Wilshire associates Mr. Jackson and Mr. Dhillon were connected by phone for a review of fund and portfolio performance.

Mr. Jackson discussed the economy stating that the fourth quarter had equities rebounding after a challenging 3<sup>rd</sup> quarter. Small cap outperformed large cap and value did better than growth. All broad market sectors posted gains during the fourth quarter. Overall, growth for domestic equities was flat for the year while international equities were off. Active management was challenged in 2011 with the S&P 500 Index in the 21<sup>st</sup> percentile and the Russell Growth Index performing in the 11<sup>th</sup> percentile. The markets have continued their strong 2011 finish carrying over into the first 6 weeks of 2012. Fixed income, including TIPS, had a solid fourth quarter and strong 2011 as did the Wilshire RESI Index.

Mr. Dhillon then discussed performance for the Age-Based and Target Portfolios in the Direct sold plan. He stated that performance was strong in Q4 and performed as expected with the index orientation of the Portfolios. With the Advisor Plan, the Harbor Large Cap Value Fund and the Lord Abbett Developing Growth Fund contributed to the equity underperformance in Q4.

On the underlying mutual fund side - PIMCO did bounce back in the fourth quarter and they believe that long term they will continue to do a good job after some bumps in 2011. TIPS performed very strongly in 2011 with the BlackRock TIPS fund up over 11.8%. The American Century Growth Fund had a solid year while the T. Rowe Price Large Cap Growth Fund trailed the Russell 1000 Growth benchmark in 2011. The Harbor Large Value Fund had a good third quarter but gave some back in Q4. It was noted the fund does have a dividend element. The Fidelity Advisor Mid-Cap II Fund underperformed the mid-cap index and will continue to be monitored. The Lord Abbett Developing Growth Fund had a good year and did a good job protecting capital. The Northern Small Cap Value Fund also had a solid year. The Neuberger Berman International Large Cap and Lazard Emerging Markets were down for the year but both added value in comparison to their respective benchmarks.

Mr. Dhillon stated that asset allocation would be discussed at the May board meeting, along with a potential recommendation concerning the Fidelity Advisor Mid Cap II Fund.

### **Agenda Item 4.A.**

Treasurer Boozer then called on Ms. Allred for a report on the scholarship program for the Opportunity Enhancement Fund. Ms. Allred discussed aspects of the program that had been researched. She stated that the scholarship distribution may be based on the amount of the annual advisor sold administration fees plus 5% of corpus. In the initial year it is expected that 150 nonrenewable scholarships would be offered for incoming freshmen in an amount up to \$4,000. She then discussed potential criteria for the scholarships.

Mr. Hughes asked about the rationale behind awarding the scholarships exclusively for the freshman year. Ms. Allred explained the administrative aspects of an ongoing scholarship as well as thoughts concerning the mission of the program to get students to enroll in college. Mr. Hughes also suggested that the amount awarded each year not exceed the earnings on the corpus.

Mr. Beavers asked if the intent was to award one in each county. Ms. Allred stated that it was the intent but there could be multiple recipients in some counties.

When questioned about the selection process, Ms. Allred stated that she had researched companies that handle the administration of scholarship programs. She requested that the Board authorize the issuance of a Request for Proposal for scholarship management. She suggested that staff be allowed to review the proposals and recommend to the board those firms that best meet the needs of the program to be invited for interviews at the next meeting. A motion was made by Mr. Hughes, seconded by Mr. Beavers to authorize staff to issue a RFP, and for staff to recommend firms for interviews at the next meeting. The motion unanimously passed.

Treasurer Boozer discussed with the Board a proposed Resolution to accept residual funds from the Alabama Higher Education Loan Corporation to fund the Opportunity Enhancement Fund. After discussion, a motion was made by Mr. Beavers for adoption of the Resolution. Mr. Smith seconded the motion and it was unanimously approved and is attached for reference.

### **Agenda Item 3. C.**

Chairman Boozer called Mr. Thiessen for his performance review with the Board

Mr. Thiessen began with a summary of Direct Plan performance status. He stated that all passively managed funds were in good standing and that there were only two actively managed funds that merited monitoring. The Funds to be monitored were the Fidelity Advisor Mid-Cap II fund and the PIMCO Total Return fund with the Fidelity fund qualifying for a "watch" status.

A summary of fund performance for the Advisor Plan was presented and noted as follows: Harbor Large Cap Value – Quarter status of "Watch"; and Fidelity Advisor Mid-Cap II, BlackRock Infl-Protected, PIMCO Total Return, Northern Institutional International Equity – "Monitor" status

Mr. Thiessen stated that the Harbor large Cap Value Fund remained on "Watch" status which was authorized by the board at the February 2011 meeting. He further stated that PCA's recommendation was to continue the status for an additional 3 to 6 months until the improved performance trend could be confirmed.

He then stated that PCA recommended that the Fidelity Advisor Mid Cap II (Direct and Advisor Plan) and the BlackRock Inflation Protected Bond (Advisor Plan) Funds be placed on "Watch" status and closely monitored over the next 12 to 18 months. A motion was made by Mr. Hughes and seconded by Mr. Beavers to approve the recommendation. The motion was unanimously approved.

The report is attached for reference.

Mr. Thiessen informed the Board that PCA had been named in litigation concerning the Los Angeles California city employee's retirement system related to losses in securities lending. He stated that they were vigorously defending the lawsuit.

**Agenda Item 3.D.**

Chairman Boozer introduced Andrea Feirstein of AKF Consulting for an update on the 529 industry from a national perspective. Ms. Feirstein began by discussing the national savings market and the growth in the Alabama program. She stated that the CollegeCounts Direct plan has exhibited strong asset and account growth since 2009 and that the Advisor Plan asset and account growth has been steady, with account growth most recently exceeding national account growth overall.

Ms. Feirstein then discussed program and industry developments. She noted that the 529 savings plans were an evolving business model with increasing competition in a growing market. She further stated that market volatility had led to new products and that the pressure to reduce fees may have taken the industry to a point of lower competition. She noted that Wells Fargo had left the market and that the concentration among the top program managers had decreased.

Ms. Feirstein then provided a Morningstar analysis. She informed the board that Morningstar had a new rating process which she explained, with an opinion that they were biased to direct plans. She further stated that in their rating of the Alabama program, the advisor and direct plan were not separated. She encouraged the Chairman to communicate with Morningstar concerning their rating of the Alabama program to make them aware of the recent changes in fee reductions and portfolio performance. In summary, Ms. Feirstein stated that Morningstar remains focused on low-cost, direct sold plans and that CollegeCounts should continue to search for cost savings opportunities.

**Agenda Item 3. E.**

Chairman Boozer called on Ms. Allred for a marketing report. Ms. Allred provided information to the board on the 2012 marketing plan and budget which was discussed and is attached for reference.

**Agenda Item 4. B. and C.**

Chairman Boozer called the Board's attention to financial information provided and the BKD audit letter concerning the audit of Union Bank.

There being no further business, the meeting adjourned at 11:50 a.m.

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Brenda Emfinger, Recording Secretary

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Young Boozer, Chairman